

FDIC State Profile

Fall 2004

West Virginia

West Virginia employment continued to contract during the first half of 2004.

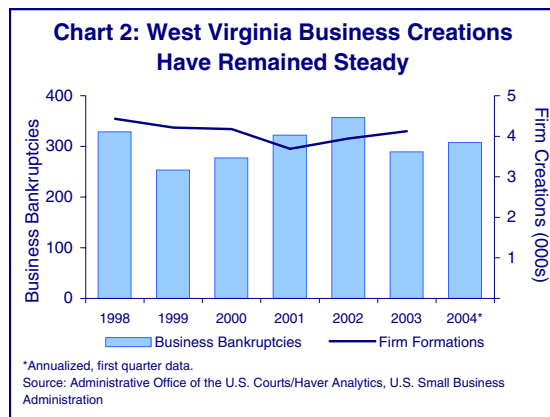
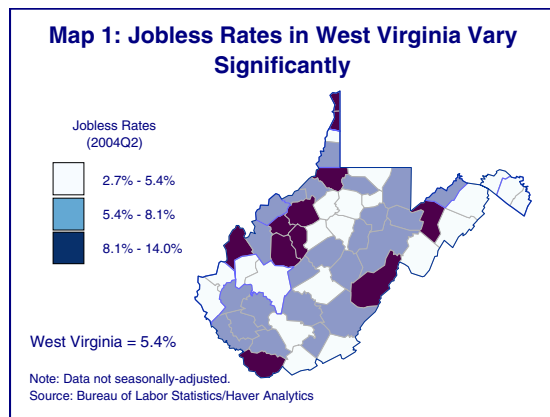
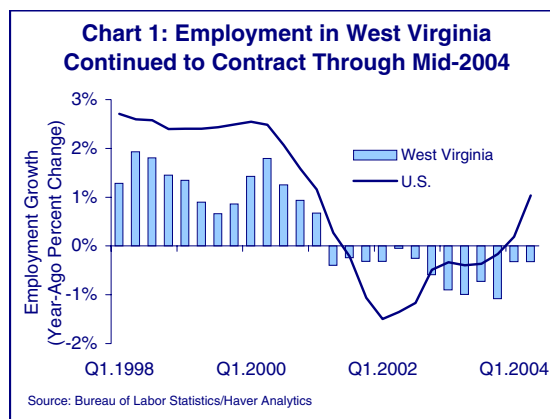
- West Virginia ranked among the worst performing states, with job growth continuing to contract through the first half of 2004 (See Chart 1). Favorably, initial data entering the third quarter indicate that employment had risen modestly from year ago levels.
- Unemployment rates vary widely throughout the state, but overall, some improvement has occurred (See Map 1). The state's jobless rates have declined to slightly below the national average, but this may be the result of weak population and labor force growth rather than actual improvement in labor market conditions. In addition, initial unemployment claim filings have generally declined since early 2003, which also indicates that economic conditions may be improving.

New business formation has been sluggish as lending appears to be reviving.

- Economic conditions have prompted only a slight gain in West Virginia business formations (See Chart 2). Additionally, business bankruptcies in 2003 fell from near record levels reported in 2002, but moved higher during the first quarter of 2004. Nevertheless, lending to small businesses appeared to be moving toward recovery. Over the past year, loan growth surged following two years of outright declines. A budding recovery may stimulate further business creation in the state and help support improving demand for small business lending.

The Charleston economy posts weak growth.

- The **Charleston** metropolitan area is growing, albeit slowly. Although manufacturing and mining employment continue to slide, housing affordability has supported gains in construction employment. While coal mining jobs in the region have dwindled to 4,000 from 13,000 twenty years ago, new interest has emerged in coal because of high energy prices in recent years. Moreover, many of the existing coal miners will retire in the near future, which will open up more jobs with above-average pay.¹



¹Bristol Herald Courier, Coal mining resurgence creating new jobs, June 18, 2004

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- State government employment, the largest component of Charleston's economy, has stagnated due to budget cuts offsetting higher health care and worker compensation programs. Increasing costs of these items have greatly contributed to recent state budget deficits.²
- Weak population growth, an aging population, and a lack of skilled workers have limited the metropolitan area's growth potential.

The housing sector fundamentals are mixed while residential related lending grows rapidly.

- Home price appreciation remains below the national average, but continues to rise at a pace above inflation. Modest increases in home prices combined with low mortgage interest rates helped to offset declining personal income growth during the 2001 recession. As a result, homeownership and affordability increased.³ Affordability—based on home price appreciation, interest rates and personal income growth—is particularly high in the Charleston metropolitan area.⁴ However, bankruptcies and mortgage foreclosures continue to edge higher and are approaching record levels, which may negatively affect the housing market.
- Construction and development and home equity loans continue to be the fastest growing loan segments during this period, having increased 39 and 35 percent, respectively (See Chart 3).

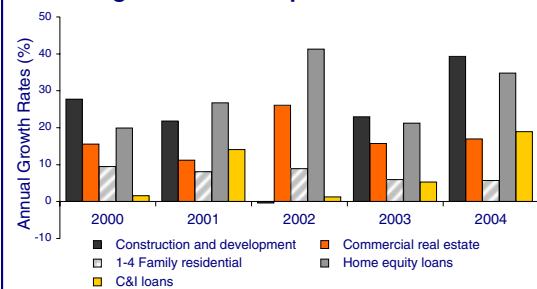
Despite slowing earnings growth, banking conditions in West Virginia remained healthy.

- West Virginia community banks remained in solid condition.⁵ Despite slowing earnings growth, net income levels eclipsed their previous year's high. At the end of the second quarter 2004, net revenue reached \$42 million, up from \$41 million in the previous year. Improved efficiencies were able to mitigate declines in noninterest income, which helped add to earnings.
- Profitability measures were mixed in the second quarter. Net interest margins remained mostly unchanged at 4 percent, a level below the national average of 4.17 percent. Return on assets, however, fell slightly to 0.97 percent and remained below the national average of 1.22 percent.

Securities portfolios suffered due to rising interest rates, and capital measures slipped for the fourth consecutive quarter.

- As in most states, a spike in interest rates during the second quarter had significant negative implications for security portfolio market valuation in West Virginia. After reporting *appreciation* of 1.76 percent in the first quarter, banks reported *depreciation* of 1.09 percent during the most recent quarter—a negative swing of nearly 300 basis points. Further fluctuation in security portfolio valuations may be likely if changes in the interest rate environment continue.
- Median Tier 1 capital levels fell for a fourth straight period, but remained in good condition at 9.5 percent. In addition, median reserve levels also fell, dropping 42 basis points to 1.36 times noncurrent loans and remained below the national median of 1.99 times.

Chart 3: Loan Growth in Most Lending Segments Have Experienced Gains



Source: FDIC, June 30th date. Commercial banks with assets <\$1 billion. Growth rates are merger adjusted.

²Economy.com, Précis METRO, July 2004.

³Federal Reserve Bank of Richmond, Region Focus, Summer 2004, page 51.

⁴Ibid.

⁵Community banks have assets less than \$1 billion dollars in assets and exclude thrifts.

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West Virginia at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	74	76	77	78	86
Total Assets (in thousands)	19,259,123	20,793,349	19,711,185	18,537,355	23,173,676
New Institutions (# < 3 years)	2	3	3	4	5
New Institutions (# < 9 years)	11	11	10	9	9
Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	9.69	9.89	9.74	9.58	10.18
Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	2.23%	2.19%	2.45%	2.93%	2.48%
Past-Due and Nonaccrual >= 5%	8	13	13	15	16
ALLL/Total Loans (median %)	1.16%	1.20%	1.16%	1.16%	1.11%
ALLL/Noncurrent Loans (median multiple)	1.35	1.53	1.30	1.21	2.15
Net Loan Losses/Loans (aggregate)	0.18%	0.21%	0.78%	0.51%	0.40%
Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	1	4	3	6	3
Percent Unprofitable	1.35%	5.26%	3.90%	7.69%	3.49%
Return on Assets (median %)	0.93	0.96	0.93	0.81	0.95
25th Percentile	0.72	0.64	0.72	0.56	0.70
Net Interest Margin (median %)	4.22%	4.05%	4.25%	4.12%	4.37%
Yield on Earning Assets (median)	5.67%	6.10%	6.94%	7.95%	8.02%
Cost of Funding Earning Assets (median)	1.52%	1.90%	2.63%	3.86%	3.68%
Provisions to Avg. Assets (median)	0.13%	0.16%	0.18%	0.15%	0.14%
Noninterest Income to Avg. Assets (median)	0.48%	0.50%	0.48%	0.48%	0.51%
Overhead to Avg. Assets (median)	2.95%	2.91%	2.96%	2.95%	2.99%
Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	77.18%	74.38%	74.07%	74.98%	77.04%
Loans to Assets (median %)	65.52%	60.83%	62.45%	62.52%	64.52%
Brokered Deposits (# of Institutions)	10	8	8	3	5
Bro. Deps./Assets (median for above inst.)	1.84%	0.60%	1.09%	0.61%	0.76%
Noncore Funding to Assets (median)	15.15%	12.57%	12.52%	12.27%	13.51%
Core Funding to Assets (median)	73.95%	75.13%	76.49%	75.92%	75.21%
Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	36	35	34	34	39
National	17	20	21	23	25
State Member	14	14	15	14	15
S&L	1	1	1	1	1
Savings Bank	6	6	6	6	6
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	53	6,372,290	71.62%	33.09%	
Charleston WV	5	2,953,239	6.76%	15.33%	
Wheeling WV-OH	4	4,169,016	5.41%	21.65%	
Huntington-Ashland WV-KY-OH	4	829,871	5.41%	4.31%	
Steubenville-Weirton OH-WV	3	615,055	4.05%	3.19%	
Parkersburg-Marietta WV-OH	3	3,893,948	4.05%	20.22%	
Washington DC-MD-VA-WV PMSA	2	425,704	2.70%	2.21%	